
*California Debt and Investment Advisory Commission
Mechanics of a Bond Sale Workshop*

The Plan of Finance

*March 16-17, 2006
Foster City, CA*

Plan of Finance Development Process

- The development of a plan of finance should be a process of careful evaluation of alternatives
- Taking into account:
 - Issuer policy guidelines and constraints
 - Financial resource constraints
 - Issuer risk tolerance
 - Project-specific timing requirements
 - Project-specific tax law considerations



Developing the Plan of Finance

- Nature of the asset to be financed
- Source of repayment
- Financing vehicle
- Fixed vs. variable rate
- Credit enhancement
- Tax law considerations
- Timing

Nature of the Asset

Questions	Considerations
Useful life of the asset	<ul style="list-style-type: none">• Match amortization of debt to life of asset
Revenue generating asset	<ul style="list-style-type: none">• Revenue bonds vs. General fund support
Acquisition / construction period	<ul style="list-style-type: none">• Timing of issuance• Net funding vs. Gross funding of construction account
Asset cost	<ul style="list-style-type: none">• Timing of issuance• Other sources of funding

Sources of Repayment

Source	Revenue Pledge
General Fund	<ul style="list-style-type: none">• Annual appropriations
Taxes	<ul style="list-style-type: none">• Property tax (GO bonds)• Tax increment• Sales tax• Special tax or assessment
Enterprise Fund	<ul style="list-style-type: none">• Water• Wastewater• Power• Airport

Financing Vehicles

General Obligation Bonds

Security

- Full faith and credit pledge of Municipality

Features

- 2/3 voter approval required
- Generally Ad Valorem property tax
- Highest rating / lowest borrowing cost

Financing Vehicles, cont'd

Certificates of Participation / Lease Revenue Bonds

Security

- **Covenant to appropriate; Usually from General Fund revenues**
- **Abatement**

Features

- **Not subject to voter authorization**
- **No debt coverage requirement**
- **Lease or installment purchase of an asset**
- **Generally one grade rating below G.O. rating**

Financing Vehicles, cont'd

Land-Secured Financings (Benefit Assessment, Special Tax / Mello-Roos)

Security

- Pledge of property owner assessments and/or special taxes

Features

- Property owner election required
- Statutory limits (minimum 3:1 value-to-lien ratio, etc.)
- New districts generally unrated

Financing Vehicles, cont'd

Enterprise Revenue Bonds

(Sewer, Water, Electric, Solid Waste, Parking, etc.)

Security

- Specific source of revenue pledged (typically user fees)

Features

- Generally not subject to voter authorization
- Bonding capacity limited by rate covenant and additional bonds test
- Generally investment grade rating

Financing Vehicles, cont'd

Tax Allocation Bonds (special category of Revenue Bonds)

Security

- Pledge of tax increment from redevelopment project area net of required pass-throughs

Features

- Not subject to voter authorization
- Rating dependent upon strength of project area and tax increment stream

Financing Vehicles, cont'd

Short-Term Notes

(TRANS, RANs, BANs, GANs, etc.)

Security

- Specific anticipated revenue pledged to retire notes

Features

- Generally investment grade short-term rating is based upon strength of pledged revenue source

Fixed Rate vs. Variable Rate

Fixed Rate

- Fixed debt service requirements
- Can be structured to provide level, increasing or declining debt service
- Less ongoing administration
- Higher interest cost
- Higher underwriting costs
- Less redemption flexibility

Variable Rate

- Lower projected interest cost
- Greater redemption flexibility
- Lower underwriting costs
- Variable debt service requirements
- Higher ongoing costs
- More ongoing administration

Credit Enhancement

- Is the financing payable from the general fund?
- If not, is the revenue stream supporting the project strong enough to sell the securities on a stand-alone basis?
- Is there a market for the securities without credit enhancement?
- Is the issuer more comfortable with the idea of credit enhancement regardless?
- Are projected debt service savings greater than the cost of the credit enhancement?

Tax Law Considerations

- Will the project being financed be used solely for governmental purposes or another qualified purpose?
- If there is planned private use of the project, what portion of the facilities will be used, how much of the time and what revenue will be generated?

Timing Considerations

A straightforward financing can be executed in 60 to 120 days

